

keeping CURRENT

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Northwest Utilities File to Create RTO West

Nine electric utilities filed a proposal with the Federal Energy Regulatory Commission on Oct. 23, 2000, to create a regional transmission organization, or RTO, that will serve eight western states. The step is aimed at facilitating deregulated wholesale electricity markets and improving overall system reliability by having a single independent entity manage the region's transmission transactions, rather than having a fragmented approach. The single entity would be known as RTO West, and would include the following filing utilities: Avista, Bonneville Power Administration, Idaho Power Company, Montana Power Company, Nevada Power Company, PacifiCorp, Portland General Electric, Puget Sound Energy and Sierra Pacific.

The proposal was the first of a two-stage filing to FERC, in response to FERC's Order 2000, that calls for utilities to voluntarily join RTOs. Stage two of the filing should be completed by the end of Spring 2001. The completed filing must be approved by FERC and various state regulators before the filing utilities begin implementing RTO West. This *Keeping Current* is intended to inform you about the general content of the filing, the expected benefits and costs of RTO West and what happens next.

The stage-1 filing

The first stage of the filing, submitted on Oct. 23, 2000, proposes:

- the RTO West governance structure bylaws and articles of incorporation;
- a description of geographic scope and configuration of RTO West;

- an agreement for suspending existing contracts between the filing utilities;
- the transmission operating agreement, an agreement between the RTO and a transmission owner, describing RTO operation of the transmission owner's transmission system; and
- an agreement limiting liability among RTO West participants.

The stage-1 filing requests approval of the proposed governance structure, scope and liability and insurance structure. In addition, BPA, Idaho Power and PacifiCorp request a FERC declaration that the concepts in the transmission operating agreement and agreement to suspend contracts are consistent with Order 2000. The remaining filing utilities requested until Dec. 1, 2000, to further review the two agreements before asking for a FERC ruling. All filing utilities requested that the commission defer action until after Dec. 1, 2000.

The Oct. 23, 2000, filing also contains an informational section including exhibits that describe how RTO West complies with the characteristics and functions of an RTO as outlined in FERC's Order 2000. The informational section describes why it now appears highly unfeasible for RTO West to meet FERC's deadline to be operational by Dec. 15, 2001. The earliest start-up would be mid-2002.

Finally, the Oct. 23 filing contains a narrative section describing areas of special consideration for some utilities.



The stage-2 filing

The filing utilities will submit the remaining components of the filing in Spring 2001. The filing was split into two parts because FERC's approval is needed on certain concepts before significant effort is invested in their implementation. The filing utilities also agreed that it is important to create an RTO West that "gets it right the first time" rather than risk creating a flawed RTO to meet an arbitrary date. The stage-2 filing will propose:

- a tariff, a document listing the terms and conditions, including a schedule of prices, under which RTO services will be provided;
- generation and load integration agreements, which describe rights and obligations with respect to connecting generation and load to the transmission system;
- a scheduling Coordination Agreement, describing the rights and obligations of scheduling coordinators;
- an allocation of firm transmission rights for users of the system;
- a paying Agent Agreement, which ensures that participating transmission owners have first call on revenues derived through use of their facilities; and
- the Market Monitoring mechanism, a proposal for how the RTO will monitor and evaluate transmission and related markets.

Each of these components involves complex technical issues that will require considerable time and effort to resolve.

How RTO West will be governed

The governance structure proposed in the Oct. 23 RTO West filing has three key elements: an independent board of trustees, a Board Advisory Committee and a Trustee Selection Committee.

Board of trustees: An independent nine-member board of trustees will be responsible for making key business decisions. Each trustee must be financially independent of power marketers, scheduling coordinators and any

RTO West member. The initial board will be selected from a pool of 15 candidates that will be identified through a national search by a third party using very specific criteria. Criteria will target those with a broad range of relevant experience in commodities markets (including commodities trading risk management), electric bulk power transmission in the Western Interconnection, utilities management, law, finance, economics, accounting, information technology, engineering, regulation and public policy. Each board member will serve a term of three years with three board positions up for election or re-election each year from a pool of six.

Board Advisory Committee: This group is comprised of stakeholders, organized by five classes of member. Membership will be open to any eligible representatives, providing they pay the membership fee of \$1,000. States, provinces and tribes will be allowed to join for free. The Board Advisory Committee is not a voting body but rather a mechanism for members to discuss issues and communicate their views to the board of trustees. Also, members may request staff work, but the RTO West chief executive officer would control the work force and work priorities. The five classes of members are:

What is an RTO?

An RTO is a term used by the Federal Energy Regulatory Commission to describe possible types of independent organizations that provide transmission products and services on a fair and non-discriminatory basis at a single rate over wide geographic areas. RTOs are an outgrowth of wholesale electricity restructuring, which began with passage of the Energy Policy Act of 1992. A key purpose of that act was to encourage competition and thereby bring down the price of delivered power. FERC has determined that RTOs are necessary for competitive markets to succeed and issued Order 2000 in December 1999 calling for investor-owned utilities to file RTO plans by Oct. 15, 2000. For more information about RTO West, see the BPA *Keeping Current*, "What is RTO West?" or go to www.rtowest.org.



1. major transmission owners;
2. transmission dependent utilities;
3. nonutility entities;
4. retail customers; and
5. state and provincial energy authorities/tribal utility regulatory authorities/unaligned entities.

Trustee Selection Committee: This committee will be comprised of six representatives from each class. The 30 committee members will elect the board of trustees from a slate developed by an executive search firm. A candidate must receive at least 24 votes to be elected to the board of trustees.

Benefits and costs of RTO West

At the urging of various parties, a group was convened to assess the potential benefits an RTO would provide the region and the costs of forming and running an RTO. The work group was composed of representatives of various interested parties from around the region. A benefits and cost report is not required by FERC, and is not part of the filing.

Improved reliability

The RTO West benefits and cost analysis indicates that RTO West has the potential to significantly improve grid reliability. This benefit will result from, among other things, operation of the RTO as a single control area as well as the RTO's authority for system planning and to arrange for system expansion. The latter will allow it to make sure that investments are made to ensure load can be served reliably. The overall reliability of the transmission system should improve because RTO West would provide greater visibility of the overall grid than today, making it easier to spot problems before they affect operations. It would have sole responsibility for determining flow path limits (physical line capacity) and for operating within them. Also, it should more effectively manage parallel paths (alternate transmission paths to the same load) which will also improve reliability.

Prevention of systemwide disturbances is a key feature of the RTO's reliability benefit. Although such

events are rare, their impacts can affect millions of customers and cost millions of dollars. RTO West will also manage system restoration of the grid as a whole, so outage duration would be minimized.

Quantitative and qualitative benefits

The report combines both quantitative and qualitative results that would likely occur if RTO West is implemented. Where precise information is not yet available, the report does not quantify impacts, although a discussion of qualitative benefits and costs has been included. Studies continue to provide more precise information in these areas. Highlights of the benefits and cost analysis include the following:

- Regulating reserve savings are estimated to be 364 megawatts or approximately \$28 million annually based on BPA tariff rates for this product. These savings come from taking advantage of the load diversity of the larger RTO control area (295 megawatt savings) and implementing a recent relaxation of North American Electric Reliability Council standards for regulation requirements.
- The RTO benefits and cost team modeled the effects that removal of pancaked rates within the RTO region would have on the market prices of electricity within the Western Systems Coordinating Council. Today, when power is transferred across two or more owners' systems, multiple rates (called pancakes because they stack up) are paid. The RTO will implement a single load-based access charge that allows full use of the RTO grid.
- To date, it appears that: 1) Due to more efficient dispatch, there is a relatively modest fuel savings (about \$30 million annually) in the Western System Coordinating Council area as a result of implementing the RTO; and 2) generators that are currently available for service should be dispatched more efficiently, thereby delaying future investment in generation expansion.
- The annual cost of implementing an RTO, assuming a tax-exempt non-profit status, is estimated to be about \$63 million, which includes \$13 million amortization of the \$82 million initial start-up cost. These costs include computer systems, communica-

tions, support contracts, facilities and staffing at a level of 277 RTO West employees. Reserves for capital or operating contingencies could raise the revenue requirement of RTO West to a total of \$89 million. These costs are based on information available to date. An extended delay of startup will increase startup costs.

Qualitative benefits of RTO West include the expectation that it will facilitate more appropriate market signals, increase trading, provide savings and efficiencies by shopping at one open-access same-time information system for reservations and purchases of RTO transmission services.

The cost of transmission is going up

Continued operation of the present system will lead, inevitably, to higher transmission rates. Increased regional load, aging facilities and equipment, and the greater demands of markets in the midst of restructuring require increased investments and upgrades to maintain grid reliability. In considering the benefits and costs of the RTO, it is important to bear in mind that, with market deregulation and increased Northwest load growth, maintaining the status quo is not an option. RTO West is not expected to result in lower transmission rates during the first years of operation, but analysis indicates that the current proposal has the ability to reduce the overall cost of delivered power over time.

TransConnect, a for-profit company, also files with FERC

Six of the filing utilities have taken an additional step toward formation of an independent transmission company, TransConnect, which would serve six states. TransConnect would be a member of the planned regional transmission organization, RTO West.

TransConnect, a for-profit company, would own or lease the high-voltage transmission facilities currently held by Avista Corp., Montana Power Company,

Portland General Electric, Puget Sound Energy, Nevada Power Company, and Sierra Pacific Power Company. Participants in TransConnect say that combining transmission resources into one independent company would benefit customers by improving the reliability and efficiency of the transmission grid, and would create new opportunities to add value for the companies' shareholders.

If a final proposal emerges, it must be approved by FERC, the boards of directors of the filing companies and regulators in various states. The companies currently have extensive transmission facilities in Oregon, Washington, Nevada, and Montana, and in parts of Idaho and California. Those facilities are within the proposed territory for RTO West, which would be the single provider of transmission services, and controller of transmission operations in an eight-state region.

RTO West would be dealing with one company in TransConnect, instead of six, which the utilities believe would speed decisions to improve reliability. That streamlining of communication would also increase the overall efficiency of RTO West, helping keep down the price of electricity. TransConnect's size would allow it to readily raise capital for system improvements.

What happens next?

Between the Oct. 23 filing and Spring 2001, the filing utilities will work to complete the second stage of the filing plan to FERC, including a strategy for RTO West start-up.

BPA will continue its outreach and communications about RTO West decisions. We will inform our customers and constituents about this process and how we plan to move forward.

Where can I get more information?

For additional information, please check the official RTO West Web site at www.rtowest.org or BPA's Web site at www.bpa.gov. If you have questions, contact Melanie Jackson at (360) 418-2303.

